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July 17, 2006

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

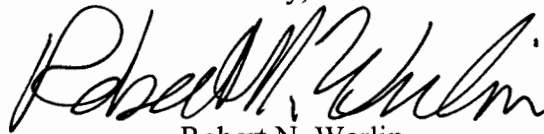
Re: NSTAR Electric Company, D.T.E. 06-40

Dear Secretary Cottrell:

Enclosed for filing in the above-referenced matter are the responses to the Information Requests set forth on the accompanying list.

Thank you for your attention to this matter.

Sincerely,



Robert N. Werlin

Enclosures

cc: Service List

## Responses to Information Requests

AG-2-14

AG-3-8

DTE-3-10

DTE-3-11

Information Request AG-2-14

Refer to Exh. CLV-1, page 26. According to the testimony, NSTAR proposes to transfer the Cambridge 13.8 kV costs to distribution rates effective January 1, 2007 based on estimated 2006 costs. Please explain in detail and illustrate using 2004 and 2005 actual and estimated data, how the charges to customers and trueup of the transmission rate would occur beginning with the January 1, 2007 rate changes and the January 1, 2008 rate change reflecting the true-up of 2006 costs not 2007 actual cost true-up.

Response

NSTAR Electric proposes to use estimated 2006 costs, including a true-up to actual costs to achieve the revenue-neutral transfer. The estimated 2006 costs will be included in the revenue transfer as of January 1, 2007 and the corresponding true-up will occur in rates effective January 1, 2008.

For purposes of illustrating the effect of the transfer of Cambridge's 13.8 kV costs from transmission to distribution, below is a calculation of the ratio of the 13.8 kV revenue requirement to the total transmission revenue requirement that is applicable to the (pre-transfer projected) January 1, 2007 transmission rates based upon estimated 2006 costs of the 13.8 kV system.

13.8 kV	\$13.8 million (estimated 2006 costs),
Total Transmission	\$45.0 million D.T.E. 06-xx (reconciliation filing)
Ratio	0.306667

The Total Transmission amount of \$45.0 million is an estimate of the projected 2007 transmission costs in the Cambridge Reconciliation Filing that will be made in October of 2006. The projected costs are based upon a combination of actual 2006 and estimated 2006 data that will form the basis of the transmission rate to be in effect on January 1, 2007.

The pre-transfer projected 2007 transmission rates for each rate class are adjusted downward by this ratio. The pre-transfer projected 2007 distribution rates for each rate class are adjusted upward by the exact amount of the transmission rate reductions.

If the actual 13.8 kV costs for 2006 was \$13.0 million and the total transmission cost was 46.0 million, then the true-up ratio of the 13.8 kV costs would be \$13.8 million divided by \$45 million minus \$13 million divided by \$46 million. The true-up ratio of 0.024058 would be applied to the original 2007 class transmission rates resulting in upward adjustments applied to class transmission rates in 2008. Similarly,

corresponding downward adjustments would apply to the distribution rates for each rate class in 2008. The adjustments to the transmission rates described above are to be performed prior to the calculation of consolidated transmission rates proposed with this merger.

There would be no basis for using 2004 and 2005 actual and estimated costs in determining the change in the transmission and distribution rates.

Please also refer to the response to Information Request AG-2-9 for a similar analysis on how the transfer of the 13.8 kV costs from transmission rates to distribution rates is achieved.

Information Request AG-3-8

Please provide copies of each of the Companies most recent FERC Audit reports and other related documents. Include all related correspondence, letters, memoranda, e-mails, and meeting notes. Explain how FERC determines which utilities to audit and the audit frequency.

Response

**[BULK ATTACHMENT AG-3-8(a)]**

In the last ten years the FERC has conducted only one audit of the Companies. That audit pertained only to Boston Edison. Attachment AG-3-8(a) is a copy of the FERC audit report, which addressed Boston Edison's compliance with the FERC's accounting and reporting requirements and regulations as they relate to: (1) the various accounts incorporated in formula rate transmission tariffs, and (2) transactions occurring under the tariffs. The period over which the audit was conducted was January 1, 2001, through December 31, 2002. The audit's scope and methodology as well as the conclusions and recommendations that were given are detailed in Attachment AG-3-8(a).

As indicated above, Cambridge, Commonwealth and Canal were not included in the audit. The last FERC audit of Cambridge, Commonwealth and Canal was for 1988 through 1992. Attachment AG-3-8(b) through Attachment AG-3-8(d) set forth the audit performed for each company, respectively, during the period 1988 to 1992 to evaluate each company's compliance with the FERC accounting and reporting regulations contained in the Uniform System of Accounts.

The FERC selected individual companies for the audit in August 2003 as part of an industry-wide audit of the accounting related to formula rate open access transmission tariffs. FERC performs periodic audit procedures related to compliance with its accounting and tariff regulations. NSTAR Electric is not aware of the specific frequency with which these audits may occur.

In Reply Refer to:  
OCA-DQA  
Docket No. FA93-029-000

Cambridge Electric Light Company  
Attention: John A. Whalen  
Comptroller  
One Main Street  
Cambridge, MA 02142-9150

Ladies and Gentlemen:

The Division of Audits of the Office of Chief Accountant has examined the books and records of Cambridge Electric Light Company for the period January 1, 1988 through December 31, 1992. The purpose of the examination was to evaluate your Company's compliance with Commission accounting and reporting regulations contained in the Uniform System of Accounts, Annual Report FERC Form No. 1, and the related regulations. The examination included selective tests of the accounting records, review of the internal control structure, and other tests and procedures considered necessary under the circumstances.

The Division of Audits recommended corrective actions on certain findings of noncompliance with the Commission's accounting, financial reporting, and/or related regulations. The enclosed audit report describes the findings, recommendations, and correcting entries. The Company agreed to adopt the recommended actions. I hereby approve and direct the recommended actions.

The Massachusetts Department of Public Utilities did not respond with any objections to the foregoing matters.

With respect to tariff matters discussed in Part I, your Company agreed to correct any overbillings to its wholesale customers within 45 days after issuance of this letter order. Within 15 days after making the billing corrections, your Company will file with the Secretary an original and six copies of a report showing the full particulars of the recalculated billings, including the names of the affected customers and the dates and amounts of the refunds, with computed interest shown separately.

Results of the Examination  
of the  
Books and Records  
of

**CAMBRIDGE ELECTRIC LIGHT COMPANY**  
Docket No. FA93-029-000

For the Period  
1/1/88 through 12/31/92

Conducted by  
Division of Audits  
Office of Chief Accountant  
Federal Energy Regulatory Commission

Cambridge Electric Light Company

-ii-

## TABLE OF CONTENTS

<u>No.</u>	<u>Description</u>	<u>Page</u>
1.	Non-fossil fuel costs and credits included in wholesale fuel adjustment clause (FAC) billings . . . . .	1
2.	Accounting for Asbestos Removal . . . . .	4
3.	Accounting for Yankee Atomic Liability . . . . .	7
4.	Accounting for Gain on Sale of Equity Ownership Stock . . . .	9



Cambridge Electric Light Company

-1-

**1. Non-fossil fuel costs and credits included in wholesale fuel adjustment clause (FAC) billings**

The Company improperly included certain non-fossil fuel costs and credits in its wholesale FAC billings.

**Background of Issue**

A. The Company entered into long-term contracts to buy power from Canal Electric Company (Canal), an affiliated company, for power that Canal would produce in Unit Nos. 1 and 2 on December 1, 1965 and January 12, 1976, respectively.

Canal billed the Company a demand and energy charge on the invoices. Canal's energy charge component of the bills, however, included certain non-fossil fuel costs like fuel analysis charges, fly ash removal from the two boilers, labor, postage, telephone calls, courier services, and other miscellaneous expenses. Canal also included credits from the sale of fly ash to reduce the energy component of its billings to the Company.

Beginning in 1976, the Company included the total energy charge component of Canal's invoices including the credits in its FAC billings to wholesale customers.

The Company recorded its power purchases from Canal in Account 555, Purchased Power.

Canal recorded the non-fossil fuel costs and credits in Account 501, Fuel, on its books.

B. The Company included the total energy charge component of Canal's invoices for Canal Unit No. 2 in its wholesale FAC billings, including the one for July 1989. Canal's energy charge component, however, included a non-fossil fuel cost. In July 1989, Canal improperly included \$77,865 related to a review done to determine if it should convert Canal Unit No. 2 from oil to gas in its energy component of the billing to Cambridge.

The Company included the total energy component of Canal's billing for July 1989 including the wholesale portion of the \$77,865 in its wholesale FAC billings.

**Discussion of Rate Requirements**

In the Company's FERC Electric Tariff effective October 1, 1979, defined the cost of fuel as follows:

Cambridge Electric Light Company

-2-

The Cost of Fuel for any month shall be the weighted average cost per kilowatt-hour for fossil and nuclear fuels used in the production of kilowatt-hours for sale to ultimate customers and wholesale sales for resale, both as generated by the Company and purchased from others. . . .

In the Company's revised FERC Electric Tariff effective July 1, 1985, defined the cost of fuel as follows:

The Cost of Fuel for any month shall be the weighted average cost per kilowatt-hour for fossil and nuclear fuels used in the production of kilowatt-hours for sale to ultimate customers and wholesale sales for resale, both as generated by the Company and purchased from others, plus such other costs as are properly includable therein pursuant to the provisions of Section 35.14 of the Commission's regulations. . . .

A provision in a Commission approved settlement agreement in Docket ER90-283-000 changed the wording of the wholesale FAC tariff to state in part:

. . . and a Fuel and Purchased Economic Power Adjustment Clause which conforms to the requirements of Section 35.14 of the Commission's regulations.

Section 35.14(a) of the Commission's regulations states in part:

- (2) Fuel and purchased economic power costs (F) shall be the cost of:
  - (ii) The actual identifiable fossil and nuclear fuel costs associated with energy purchased . . . .

Under the above regulation a company is only permitted to include its share of actual identifiable fossil and nuclear costs associated with energy purchases in its wholesale FAC billings.

Furthermore, a company can only include costs in its FAC billings that are properly recordable in Account 151, Fuel Stock. Section 35.14(a) states in part:

The cost of fossil fuel shall include no items other than those listed in Account 151 . . . .

None of the costs listed above, such as, the fuel analysis charges, fly ash removal, labor, postage, telephone calls, and courier services are proper costs to be included in Account 151. Canal properly recorded these costs directly to Account 501 on its books and did not include them in Account 151.

Cambridge Electric Light Company

-3-

The Commission's regulations permit a company to include non-fossil fuel energy charges only when the power purchased qualifies as **economic power** and the purchase price is less than a company's avoided variable costs.

Section 35.14(a)(11)(i) defines economic power as:

. . . power or energy purchased over a period of twelve months or less where the total cost of the purchase is less than the buyer's total avoided variable cost.

The Company's purchases from Canal did not constitute economic power because the contract terms were for greater than twelve months. In addition, the terms of the contract required the Company to pay its share of the total cost of operating the plant regardless of whether it generated or not. Therefore, the power could not be economic as the Company had to pay Canal in even if there were less expensive power available. Also, the Company did not monitor the purchases and exclude the energy charges from FAC billings during the periods when the purchase price was equal to or more than its avoided variable costs. Instead, the Company simply included the total energy charge in FAC billings each month.

Since the costs were not proper Account 151 costs, the Company should not have included the amounts in its wholesale FAC billing calculations.

The Company did not over collect through its FAC billings during the period 1976 through 1987 because the fly ash sales, or credits to the energy component more than off set the improper expenses that the Company included in its FAC billings. The credits exceeded the other non-fossil fuel costs by approximately \$50,000. During the period 1988 through 1992, however, the Company overbilled approximately \$8,986 of improper expenses net of the fly-ash credits. Since there was a net under-billing, we will not propose any rate refunds.

The Company further amended its contract with its one wholesale customer in Docket No. ER93-433-000 to be effective April 1, 1993. The new contract calls for the energy charge to be calculated as follows:

(1) The monthly energy charge for Net Requirements Service shall be Belmont's monthly Associated Energy multiplied by the monthly energy rate determined in accordance with item (2) below.

(2) The monthly energy rate shall be an average for the month determined by dividing the sum of the amounts in FERC Accounts 501, 504, 547 and 555 (energy related) by CELCO's total KWH generated, purchased and interchanged, and adjusted for losses at the applicable voltage level as determined by the Company.

Cambridge Electric Light Company

-4-

The monthly energy rate may be estimated as necessary, subject to reconciliation in the second following month.

### Recommendation

We recommend the Company revise its procedures to ensure that it includes only fuel costs permitted under its tariff agreement in its wholesale FAC billings.

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## 2. Accounting for Asbestos Removal

The Company incorrectly classified the costs incurred to remove or encapsulate asbestos insulation and to install new non-asbestos insulation at its generating stations in its utility plant accounts. Also, the Company accrued the allowance for funds used during construction (AFUDC) on costs improperly recorded in Account 107, Construction Work in Progress.

### Background of Issue

*can we change the property unit catalogue.*

The Company constructed the Kendall Station in 1949 and placed the last unit in service in 1958. When it originally capitalized the station, the Company did not maintain its records in the current form of units of property. In its initial property units catalog, the Company did not set out the insulation separately as a retirement unit but chose, instead, to include insulation in the total cost of the piping and boiler equipment, the actual retirement units.

During 1988, the Company began removing asbestos and/or encapsulating insulation from the generating plants and re-insulating with non-asbestos insulation as necessary. During 1988 through 1992 the Company accounted for the costs of removing and/or encapsulating the old insulation and installing new insulation at the station as follows:

It debited \$142,132 to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant, for the costs incurred to remove the old asbestos insulation.

It debited \$92,699 to Account 108 and credited Account 101, Electric Plant in Service, to retire the estimated original cost of the old asbestos insulation. The Company's plant accounting department obtained the estimate from the project engineer over the telephone. The plant accounting department did not maintain any records supporting the basis for the estimate.

-5-

It debited \$490,748 to Account 107, Construction Work in Progress -- Electric, for the cost of adding the new insulation to the Cannon Street Station. This amount included \$42,867 of AFUDC and other indirect charges that the Company capitalized to the projects.

The Company's depreciation rates in effect did not incorporate a provision for asbestos removal. Additionally, none of the Company's retail rate cases discussed this issue.

## Discussion of Accounting Requirements

Under the Commission's accounting regulations, there are two basic classes of utility plant property-- retirement units and minor items of property. A company may categorize its plant property into retirement units by following the retirement list in 18 CFR Part 116 of the Commission's regulations with the option of using smaller units as long as it follows a consistent procedure.

As discussed above, when the Company built the Kendall Station, it included insulation in other retirement units such as piping and boiler equipment and chose not to set out insulation as a separate retirement unit. Therefore, insulation must be considered a minor item of property.

(1) The instructions to Electric Plant Instruction (EPI) No. 10(c) state in part: *Both good and new useful, greater can*

(3) When a minor item of depreciable property is replaced independently of the retirement unit of which it is a part, the cost of replacement shall be charged to the maintenance account appropriate for the item, except that if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, more efficient, of greater durability, or of greater capacity), the excess cost of the replacement over the estimated costs at current prices of replacing without betterment shall be charged to the appropriate electric plant account. [Emphasis added]

Based on the above instructions, when the Company removed the asbestos insulation it should have treated the item as the removal or replacement of a minor item of property. It is only appropriate to record the removal and replacement of minor items of property to the plant accounts when the replacement creates a betterment. However, the asbestos removal did not affect a betterment in the plant because its removal and replacement with non-asbestos insulation did not make the plant more efficient, of greater durability or increase the capacity of the plant. Therefore, the Company should not have recorded the cost of removing replacing the asbestos insulation to the plant accounts.

Cambridge Electric Light Company

-6-

(2) Operating Expense Instruction (OEI) No. 2 lists eight work operations that are properly includible in the maintenance expense accounts, including:

(3) Work performed specifically for the purpose of preventing failure, restoring serviceability or maintaining life of plant . . .

(8) Replacing or adding minor items of plant which do not constitute a retirement unit. . . .

The instruction to Account 512, Maintenance of Boiler Plant, state in part:

A. This account shall include the cost of labor, materials used and expenses incurred in the maintenance of steam plant, the book cost of which is includible in Account 312, Boiler Plant Equipment.

Since most of the asbestos insulations was associated with boiler plant equipment, the Company should have recorded the costs incurred to remove the old asbestos insulation, along with the costs incurred to add the new insulation in Account 512

(3) The Commission's accounting regulations permit a company to accrue AFUDC on accumulated costs properly recorded to Account 107.

Electric Plant Instruction No. 3(a) states in part:

(17) "Allowance for funds used during construction" (Major and Nonmajor Utilities) includes the net cost for the period of construction of borrowed funds used for construction purposes . . . . [Emphasis added]

As discussed above, it was improper for the Company to have included the cost of adding new insulation in Account 107. Therefore, the Company should not have recorded AFUDC on the improper costs included in Account 107.

The Massachusetts Department of Public Utilities (MDPU) has not addressed this issue specifically in any of the rate orders it issued during the audit period.

### Recommendations

We recommend the Company:

- (1) revise accounting procedures to ensure it accounts for the cost of the removal and replacement of insulation in accordance with the requirements of the Uniform System of Accounts; and

- 7 -

- (2) record the following correcting entry as of December 31, 1992 to:
- (a) expense the costs of insulation removal improperly charged to Account 108;
  - (b) expense the costs of installing the new insulation improperly capitalized and reverse the AFUDC accrued thereon;
  - (c) reverse the entries made to retire the estimated original cost of the asbestos insulation.

<u>Account Number</u>	<u>Title</u>	<u>Debit</u>	<u>Credit</u>
512	Maintenance of Boiler Plant	\$ 632,880	
108	Accumulated Provision for Depreciation of Electric Utility Plant		\$ 398,049
101	Electric Plant in Service		234,831

The Company should file a copy of the correcting entries with the Office of the Chief Accountant within 45 days from the issuance date of this report.

### 3. Accounting for Yankee Atomic Liability

The Company did not properly account for its obligation to Yankee Atomic Power Company for future billings of \$75,000. 60,000

## Background of Issue

On February 26, 1992, the Board of Directors of Yankee Atomic Power Company (Yankee) decided to cease power operations at the nuclear power plant. The Company has a 2% ownership entitlement in Yankee. The Company set up a liability for \$9,400,000 in Account 253, Other Deferred Credits, for its share of the estimated total future billings from Yankee for all costs. It debited Account 186, Miscellaneous Deferred Debits<sup>1</sup>/, to create a regulatory asset for this liability. The Company reduces both the liability and the

1/ The Company plans to reclassify the asset to Account 182.3, Regulatory Assets, during 1993.

Cambridge Electric Light Company

-8-

regulatory asset on a monthly basis by the amount of its payment to Yankee.

A recent Massachusetts Department of Public Utilities (MDPU) rate order did not specifically allow or disallow these costs. The Company had included these costs in its test year filing.

In a recent settlement of a FERC rate case, Yankee agreed to write-off \$3 million of assets. It wrote-off these assets to Account 426.5, Other Deductions. The Company reduced its regulatory asset by \$60,000, its share of the write-off by debiting Account 426.5 and crediting Account 186. It did not reduce the liability recorded in Account 253.

#### **Discussion of Accounting Requirements**

FASB Statement of Concepts No. 6, Paragraph 35, defines liabilities as follows:

Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. [Footnotes omitted]

Paragraph No. 42 continues as follows:

Once incurred, a liability continues as a liability of the entity until the entity settles it, or another event or circumstance discharges it or removes the entity's responsibility to settle it.

Yankee, by agreeing to write-off the \$3 million of assets, agreed not to bill the participants for this amount. Under the terms of the power contract between Yankee and the participants, Yankee cannot bill the participants any below-the-line costs. Therefore, the Company has no future liability to Yankee for its share of the \$3 million and should have reduced its liability accordingly.

#### **Recommendation**

We recommend the Company:

- (1) revise its procedures to ensure that it accounts for its Yankee liability in accordance with the requirements of the Uniform System of Accounts; and
- (2) record the following correcting entry to reduce the Company's liability to Yankee:



Cambridge Electric Light Company

-9-

<u>Account Number</u>	<u>Title</u>	<u>Debit</u>	<u>Credit</u>
253	Other Deferred Credits	\$ 60,000	
426.5	Other Deductions		\$ 60,000

#### 4. Accounting for Gain on Sale of Equity Ownership Stock

The Company improperly recorded a gain on its income statement from Vermont Yankee Nuclear Power Corporation's repurchase of a portion of its outstanding common stock.

##### Background of Issue

The Company has a 2.5 percent ownership interest in Vermont Yankee Nuclear Power Corporation (Vermont Yankee) which it accounts for using the equity method of accounting.

On February 28, 1991, Vermont Yankee repurchased two percent of its outstanding common stock from its owners at its book value of \$150 per share. The Company owned 10,001 shares of Vermont Yankee stock that it purchased for \$1,000,100. Vermont Yankee repurchased 200 shares of stock from the Company at a purchase price of \$30,000.

The Company recorded the repurchase by debiting Account 131, Cash, for \$30,000, crediting Account 123.1, Investment in Subsidiary Companies, for \$20,000 (200 shares x \$100 original per share cost), and crediting Account 421, Miscellaneous Nonoperating Income, for a gain of \$10,000.

##### Discussion of Accounting Requirements

Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, paragraph 19(e) states:

A transaction of an investee of a capital nature that affects the investor's share or stockholder's equity of the investee should be accounted for as if the investee were a consolidated subsidiary.

If the investee were a consolidated subsidiary, the Company would not have recorded a gain on the transaction. There is no provision in the Uniform System of Accounts for accounting that recognizes income on a stock transaction. The effects of capital stock transactions can only be reflected in the capital stock accounts. Because net income should not reflect the effects of capital stock transactions,

Cambridge Electric Light Company

-10-

the Company's procedures of recognizing a gain on this transaction was contrary to the Commission's requirements. Therefore, the Company should have reduced the investment it had recorded in Account 123.1 for the entire amount it received from Vermont Yankee.

### Recommendation

We recommend the Company:

- (1) revise its procedures to ensure that it accounts for its ownership interest in the Yankee companies in accordance with the requirements of the Uniform System of Accounts; and
- (2) record the following correcting entry to properly account for the stock repurchase:

<u>Account Number</u>	<u>Title</u>	<u>Debit</u>	<u>Credit</u>
421	Miscellaneous Nonoperating Income	\$ 10,000	
123.1	Investments in Subsidiary Companies		\$ 10,000

*what if Vermont Yankee refunded  
 all 10,000 shares @ \$150 per share*

*what would the entry be?*

In Reply Refer to:  
OCA-D0A  
Docket No. FA93-028-000

Commonwealth Electric Company  
Attention: John A. Whalen  
Comptroller  
One Main Street  
Cambridge, MA 02142-0150

Ladies and Gentlemen:

The Division of Audits of the Office of Chief Accountant has examined the books and records of Commonwealth Electric Company for the period January 1, 1988 through December 31, 1992. The purpose of the examination was to evaluate your Company's compliance with Commission accounting and reporting regulations contained in the Uniform System of Accounts, Annual Report FERC Form No. 1, and the related regulations. The examination included selective tests of the accounting records, review of the internal control structure, and other tests and procedures considered necessary under the circumstances.

The Division of Audits recommended corrective actions on certain findings of noncompliance with the Commission's accounting, financial reporting, and/or related regulations. The enclosed audit report describes the findings, recommendations, and correcting entries. The Company agreed to adopt the recommended actions. I hereby approve and direct the recommended actions.

The Massachusetts Department of Public Utilities did not respond with any objections to the foregoing matters.

Results of the Examination  
of the  
Books and Records  
of

**COMMONWEALTH ELECTRIC COMPANY**  
Docket No. FA93-028-000

For the Period  
1/1/88 through 12/31/92

Conducted by  
Division of Audits  
Office of Chief Accountant  
Federal Energy Regulatory Commission

Commonwealth Electric Company

-ii-

## TABLE OF CONTENTS

<u>No.</u>	<u>Description</u>	<u>Page</u>
1.	Accounting for Asbestos Removal . . . . .	1
2.	Accounting for Yankee Atomic Liability . . . . .	4
3.	Accounting for Discrimination Settlement Costs . . . . .	6

Commonwealth Electric Company

-1-

## **1. Accounting for Asbestos Removal**

The Company incorrectly classified the costs incurred to remove or encapsulate asbestos insulation and to install new non-asbestos insulation at its generating stations in its utility plant accounts. Also, the Company accrued the allowance for funds used during construction (AFUDC) on costs improperly recorded in Account 107, Construction Work in Progress.

### **Background of Issue**

The Company constructed the Cannon Street Station in 1916 and put the last unit into service in 1950. When it originally capitalized the station, the Company did not maintain its records in the current form of units of property. In its initial property units catalog, the Company did not set out the insulation separately as a retirement unit but chose, instead, to include insulation in the total cost of the piping and boiler equipment, the actual retirement units.

During 1988, the Company began removing asbestos insulation from the generating plant and re-insulating as necessary. During 1988 through 1992 the Company accounted for the costs of removing the old insulation and installing new insulation at the station as follows:

It debited \$324,517 to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant, for the costs incurred to remove the old asbestos insulation.

It debited \$21,389 to Account 108 and credited Account 101, Electric Plant in Service, to retire the estimated original cost of the old asbestos insulation. The Company's plant accounting department obtained the estimate from the project engineer over the telephone. The plant accounting department does not maintain any records supporting the basis for the estimate.

It debited \$146,284 to Account 107, Construction Work in Progress -- Electric, for the cost of adding the new insulation to the Cannon Street Station. This included \$11,485 of AFUDC and other overheads that the Company capitalized to the projects.

In October 1992, the Company decided to take the Cannon Street station out of operation. It transferred the total costs from Account 101 to Account 105, Electric Plant Held for Future Use.

The Company's depreciation rates did not incorporate a provision for asbestos removal. Additionally, none of the Company's retail rate cases discussed this issue.

Commonwealth Electric Company

-2-

### Discussion of Accounting Requirements

Under the Commission's accounting regulations, there are two basic classes of utility plant property-- retirement units and minor items of property. A company may categorize its plant property into retirement units by following the retirement list in 18 CFR Part 116 of the Commission's regulations with the option of using smaller units as long as it follows a consistent procedure.

As discussed above, when the Company built the Cannon Street Station, it included insulation in other retirement units such as piping and boiler equipment and chose not to set out insulation as a separate retirement unit. Therefore, insulation must be considered a minor item of property.

(1) The instructions to Electric Plant Instruction (EPI) No. 10(c) state in part:

(3) When a minor item of depreciable property is replaced independently of the retirement unit of which it is a part, the cost of replacement shall be charged to the maintenance account appropriate for the item, except that if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, more efficient, of greater durability, or of greater capacity), the excess cost of the replacement over the estimated costs at current priced of replacing without betterment shall be charged to the appropriate electric plant account. [Emphasis added]

Based on the above instructions, when the Company removed the asbestos insulation it should have treated the item as the removal or replacement of a minor item of property. It is only appropriate to record the removal and replacement of minor items of property to the plant accounts when the replacement creates a betterment. However, the asbestos removal did not affect a betterment in the plant because its removal and replacement with non-asbestos insulation did not make the plant more efficient, of greater durability or increase the capacity of the plant. Therefore, the Company should not have recorded the cost of removing replacing the asbestos insulation to the plant accounts.

(2) Operating Expense Instruction (OEI) No. 2 lists eight work operations that are properly includible in the maintenance expense accounts, including:

(3) Work performed specifically for the purpose of preventing failure, restoring serviceability or maintaining life of plant  
...

Commonwealth Electric Company

-3-

(8) Replacing or adding minor items of plant which do not constitute a retirement unit. . . .

The instruction to Account 512, Maintenance of Boiler Plant, state in part:

A. This account shall include the cost of labor, materials used and expenses incurred in the maintenance of steam plant, the book cost of which is includible in Account 312, Boiler Plant Equipment.

Since most of the asbestos insulations was associated with boiler plant equipment, the Company should have recorded in Account 512 the costs incurred to remove the old asbestos insulation, along with the costs incurred to add the new insulation.

(3) Electric Plant Instruction No. 3(a) states in part:

(17) "Allowance for funds used during construction" (Major and Nonmajor Utilities) includes the net cost for the period of construction of borrowed funds used for construction purposes . . . . [Emphasis added]

Since the cost of adding new insulation was not properly includible in Account 107, it was improper for the Company to accrue AFUDC on the costs incurred to purchase and install the new insulation.

(4) The Massachusetts Department of Public Utilities (MDPU) has not address this issue specifically in any of the rate orders it issued during the audit period.

### Recommendations

We recommend the Company:

- (1) revise accounting procedures to ensure it accounts for the cost of future asbestos work in accordance with the requirements of the Uniform System of Accounts; and
- (2) record the following correcting entry as of December 31, 1992 to:
  - (a) expense the costs of asbestos removal improperly charged to Account 108;
  - (b) expense the costs of installing the new insulation improperly capitalized and reverse the AFUDC accrued thereon;



Commonwealth Electric Company

-4-

Account Number	Title	Debit	Credit
512	Maintenance of Boiler Plant	\$ 428,023	
105	Electric Plant Held for Future Use		\$ 124,895
108	Accumulated Provision for Depreciation of Electric Utility Plant		303,128

The Company should file a copy of the correcting entries with the Office of the Chief Accountant within 45 days from the issuance date of this report.

## 2. Accounting for Yankee Atomic Liability

The Company did not properly account for its obligation to Yankee Atomic Power Company for future billings of \$75,000.

### Background of Issue

On February 26, 1992, the Board of Directors of Yankee Atomic Power Company (Yankee) decided to cease power operations at the nuclear power plant. The Company has a 2.5% ownership entitlement in Yankee. The Company set up a liability in Account 253, Other Deferred Credits, for \$11,750,000, its share of the estimated total future billings from Yankee for all costs. It debited Account 186, Miscellaneous Deferred Debits<sup>1/</sup>, to create a regulatory asset for this liability. The Company reduces both the liability and the regulatory asset on a monthly basis by the amount of its payment to Yankee.

A recent Massachusetts Department of Public Utilities (MDPU) rate order for Cambridge Electric Light Company, an affiliate, did not specifically allow or disallow Cambridge's recovery of this item. Cambridge had included the costs in its test year amounts. The Company has not filed a rate case since it set up the liability and the regulatory asset.

In a recent settlement of a FERC rate case, Yankee agreed to write-off \$3 million of assets and not bill the amount to its customers.

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<sup>1/</sup> The Company plans to reclassify the asset to Account 182.3, Regulatory Assets, during 1993

Commonwealth Electric Company

-5-

It wrote-off the amount to Account 426.5, Other Deductions. The Company reduced its regulatory asset by \$75,000, its share of the write-off by debiting Account 426.5 and crediting Account 186. However, it did not reduce the liability recorded in Account 253.

### Discussion of Accounting Requirements

FASB Statement of Concepts No. 6, Paragraph 35, defines liabilities as follows:

Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. [Footnotes omitted]

Paragraph No. 42 continues as follows:

Once incurred, a liability continues as a liability of the entity until the entity settles it, or another event or circumstance discharges it or removes the entity's responsibility to settle it.

Yankee, agreed not to bill the participants for this amount by agreeing to write-off the \$3 million of assets. Under the terms of the power contract between Yankee and the participants, Yankee cannot bill the participants any below-the-line costs. Therefore, the Company had no future liability to Yankee for its share of the \$3 million and, accordingly, should have reduced its liability.

### Recommendation

We recommend the Company:

- (1) revise its procedures to ensure that it accounts for its Yankee liability in accordance with the requirements of the Uniform System of Accounts; and
- (2) record the following correcting entry to reduce the Company's liability to Yankee:

<u>Account Number</u>	<u>Title</u>	<u>Debit</u>	<u>Credit</u>
253	Other Deferred Credits	\$ 75,000	
426.5	Other Deductions		\$ 75,000

Commonwealth Electric Company

-6-

### **3. Accounting for Discrimination Settlement Costs**

The Company incorrectly recorded the cost of employment discrimination settlements in Account 920, Administrative and General Salaries.

#### **Background of Issue**

In June 1988, the Company paid \$9,000 to an employee to settle a sexual harassment claim. The Company recorded the settlement payment in Account 920, Administrative and General Salaries. The Company did not receive a separate break down of the legal costs it incurred from its legal counsel.

In May 1990, the Company paid \$9,000 to an employee to settle a handicap discrimination claim. The Company recorded the settlement payment in Account 920. The Company did not receive a separate break down of the legal costs it incurred from its legal counsel.

The Company also had a pending suit for discrimination ongoing. It has incurred \$10,524 of legal expenses to date and has recorded these costs in Account 923, Outside Services Employed.

The Company also has an ongoing suit alleging discrimination. It has not settled this case. The Company has not made any payments to date.

#### **Discussion of Accounting Requirements**

On February 1, 1980, the Chief Accountant issued Accounting Release No. 12 addressing the proper accounting treatment for expenditures made by utilities resulting from discriminatory employment practices. The accounting release required utilities to charge Account 426.5, Other Deductions, with the settlement costs and in-house legal costs in unsuccessful defense against charges of discriminatory practices.

Based on the Chief Accountant's letter, the Company should record payments made to settle claims related to suits involving discrimination practices in Account 426.5.

#### **Recommendation**

We recommend the Company revise its procedures to ensure it records settlement payments related to discriminatory employment practices in accordance with the requirements of the Uniform System of Accounts.

In Reply Refer to:  
OCA-DOA  
Docket No. FA93-030-000

Canal Electric Company  
Attention: John A. Whalen  
Comptroller  
One Main Street  
Cambridge, MA 02142-9150

Ladies and Gentlemen:

The Division of Audits of the Office of Chief Accountant has examined the books and records of Canal Electric Company for the period January 1, 1988 through December 31, 1992. The purpose of the examination was to evaluate your Company's compliance with Commission accounting and reporting regulations contained in the Uniform System of Accounts, Annual Report FERC Form No. 1, and the related regulations. The examination included selective tests of the accounting records, review of the internal control structure, and other tests and procedures considered necessary under the circumstances.

The Division of Audits recommended corrective actions on certain findings of noncompliance with the Commission's accounting, financial reporting, and/or related regulations. The enclosed audit report describes the findings, recommendations, and correcting entries. The Company agreed to adopt the recommended actions. I hereby approve and direct the recommended actions.

The Commission delegated authority to act in this matter to the Chief Accountant under 18 C.F.R. 375.303. This letter order constitutes final agency action on the corrective actions approved and directed in this report. Within 30 days of the date of this order, your Company may file a request for rehearing by the Commission under 18 C.F.R. 385.713.

Results of the Examination  
of the  
Books and Records  
of

**CANAL ELECTRIC COMPANY**  
Docket No. FA93-030-000

For the Period  
1/1/88 through 12/31/92

Conducted by  
Division of Audits  
Office of Chief Accountant  
Federal Energy Regulatory Commission

Canal Electric Company

-ii-

## TABLE OF CONTENTS

<u>No.</u>	<u>Description</u>	<u>Page</u>
1.	Accounting for External Decommissioning Trust . . . . .	1
2.	Accounting for Consulting Services . . . . .	2
3.	Accounting for Capital Leases . . . . .	4
4.	Filings Related to Settlement Agreement . . . . .	5
5.	Accounting for Goodwill and Promotional Advertising . . . . .	6

Canal Electric Company

-1-

## **1. Accounting for External Decommissioning Trust**

The Company did not reflect its external decommissioning trust fund on the balance sheet. Also, it did not include the net income earned on the amounts placed in the trust fund on the income statement.

### **Background of Issues**

The Company was a joint owner of Seabrook Unit No. 1. The unit went into commercial operation in 1990. The Company recorded its ownership share of its plant investment in its utility plant accounts, along with its share of the unit's expenses in the operating and maintenance expense accounts.

The Company was responsible for making payments into the project's external decommissioning trust fund. It began making payments to the external decommissioning trust fund in 1990, the year the unit went into commercial operation.

Since 1990, the Company has debited Account 403, Depreciation Expense, and credited Account 232, Accounts Payable, to record its monthly decommissioning expense accrual. It recorded its periodic payment to the external fund by debiting Account 232 and crediting Account 131, Cash.

As a result of the accounting, the Company did not recognize the external fund assets on its balance sheet. In addition, it did not reflect the earnings or expenses of the fund in the income statement.

### **Discussion of Accounting Requirements**

(1) The instructions to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant, state in part:

A. This account shall be credited with the following:

(1) Amounts charged to account 403, Depreciation Expense, or to clearing accounts for current depreciation expense for electric plant in service.

Under the requirements of the Uniform System of Accounts, the Company should have credited Account 108 with its monthly decommissioning expense.

(2) The instructions to Account 128, Other Special Funds, state:

This account shall include the amount of cash and book costs of investments which have been segregated in special funds for insurance, employee pensions, savings, relief, hospital, and

CELCO - Keep Money

Canal - External Fund.

Canal Electric Company

-2-

other purposes not provided for elsewhere. A separate account with appropriate title, shall be kept for each fund.

Therefore, under the requirements of the Uniform System of Accounts, the Company should have reflected in Account 128 the deposits made to the external trust fund.

The Company should record the earnings and expenses on the decommissioning fund in the income statement.

#### Recommendations

We recommend the Company:

- (1) revise procedures to ensure it accounts for decommissioning expense in accordance with the Commission's regulations; and
- (2) record the following correcting entry as of December 31, 1992, to properly reflect on its balance sheet its share of the principal amounts placed in the external decommissioning trust fund and the earnings on the fund:

<u>Account Number</u>	<u>Title</u>	<u>Debit</u>	<u>Credit</u>
128	Other Special Funds	\$ 497,743	
108	Accumulated Provision for Depreciation of Electric Utility Plant		\$ 497,943

## 2. Accounting for Consulting Services

The Company improperly charged Account 501, Fuel, for costs incurred to determine the feasibility of converting Canal Unit No. 2 to gas.

#### Background of Issue

On December 13, 1987, the Company and Montaup Electric Company<sup>1/</sup> entered into a contract with Citizens Global Gas (Citizens). Citizens was to investigate the possibility of converting Canal Unit No. 2 from oil to gas. During the period May 1988 through June 1989, the Company made payments totaling \$75,000 to Citizens. It accumulated these charges in Account 183, Preliminary Survey and

<sup>1/</sup> Montaup Electric Company owns 50% of Canal Unit No. 2



Canal Electric Company

-3-

Investigations. It also charged \$2,865 of customer accounting overheads to the work order.

In July 1989, the Company concluded that it would not convert Unit 2 from oil to gas. It determined that the conversion would not be advantageous at that time. It expensed the \$77,865 accumulated in the work order (\$75,000 plus \$2,865 of overheads) to Account 501, Fuel.

#### **Discussion of Accounting Requirements**

The instructions to Account 501 state in part:

A. This account shall include the cost of fuel used in the production of electricity, . . . .

The instructions to Account 183, state in part:

A. This account shall be charged with all expenditures for preliminary surveys, plans, investigations, etcl, made for the purpose of determining the feasibility of utility projects under consideration. If construction results, . . . . If the work is abandoned, the charge shall be made to account 426.5, Other Deductions, or to the appropriate operating expense account.

The Uniform System of Accounts contemplates that the Company record charges of this nature in Account 930.1, Miscellaneous General Expenses.<sup>2/</sup> The text to Account 930.1 states in part:

This account shall include the cost of labor and expenses incurred in connection with the general management of the utility not provided for elsewhere.

The Company should have expensed the charges it had accumulated in Account 183 to Account 930.2, Miscellaneous General Expenses, not to Account 501.

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<sup>2/</sup> The National Association of Regulatory Commissioners' (NARUC) Interpretations of Uniform System of Accounts for Electric, Gas and Water Utilities addresses the treatment of costs accumulated in Account 183. Question No. 69, Deferred Preliminary Survey and Investigation Expenses Charged to Operating Expenses states that a Company is to charge Account 930.2, Miscellaneous General Expenses, when it abandons a project that it had recorded in Account 183.

Canal Electric Company

-4-

### Recommendations

We recommend the Company revise its procedures to ensure that it properly accounts for charges accumulated in Account 183 in accordance with the requirements of the Uniform System of Accounts.

### 3. Accounting for Capital Leases

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The Company did not classify its capital leases in the correct detailed accounts.

### Background of Issue

The Company recorded capital leases for its entitlement in Hydro Quebec Phase II (HQ II). HQ II is the second phase of a major transmission service from Hydro Quebec in Canada into New England. These lines run from the New Hampshire border into Massachusetts. The Company has an entitlement in the power from HQ II. It determined that this entitlement constituted a capital lease. The lease term was for 25 years.

The Company properly recorded the investment in Account 101.1, Property Under Capital Leases; and the liability in Accounts 227, Obligations Under Capital Leases -- Noncurrent; and 243, Obligations Under Capital Leases -- Current. However, it did not classify the investment separately in the appropriate detailed accounts.

### Discussion of Accounting Requirements

The instructions to Account 101.1 state, in part:

B. The electric property included in this account shall be classified separately according to the detailed accounts (301 to 399) prescribed for electric plant in service.

The Company should have reflected the lease in the detailed (301 to 399) series of accounts as appropriate.

### Recommendations

We recommend that the Company:

- (1) revise its procedures to ensure that it accounts for capital leases in accordance with the requirements of the Uniform System of Accounts; and

Canal Electric Company

-5-

- (2) record an entry to reflect the capital leases in the 301 to 399 series of accounts as appropriate.

*Plant Accounting*

#### **4. Filings Related to Settlement Agreement**

The Company did not make the appropriate filings it agreed to make in a FERC approved settlement agreement.

#### **Background of Issue**

The Company entered into a settlement agreement in Docket No. ER86-704-001. The settlement allowed the Company to collect its costs related to the Seabrook No. 2 abandonment over a ten year period. As part of the agreement, the Company agreed to keep the Commission informed as to the receipts and expenditures regarding its Seabrook Unit No. 2 abandonment collections by making annual filings with the Commission beginning April 15, 1989. The filings were to have included a summary of the activity related to any expenditures or receipts for Seabrook No. 2. However, the Company did not make any of the filings.

The Company recorded its total investment in Seabrook Unit No. 2 in Account 182.2, Unrecovered Plant and Regulatory Study Costs. This included its investment in parts that may be usable in Seabrook Unit No. 1 in the future or may have other salvage value. The Company reduced the amount recorded in Account 182.2 by the monthly amortization for the amounts it recovered in rates. It also reduced the amounts recorded in Account 182.2 for any value received for the sale of parts or other materials to Seabrook Unit 1 or any other purchaser.

#### **Discussion of Rate Requirements**

Paragraph 7 of the settlement agreement to Docket No. ER86-704-001, states in part:

7. The Company will also furnish the Commission and the parties to this proceeding with reports for each fiscal year to be submitted by April 15 of each year beginning with April 15, 1989 and continuing until the disposition of Canal's interest in Seabrook Unit No. 2 has been completed. Those reports will show all such expenditures, receipts, and income tax calculations to date and the Company's best estimate of future expenditures and receipts accompanied by full explanation and supporting documentation in respect of matters addressed in such report. . . .

The Commission approved the settlement agreement by letter order on August 2, 1988. Based upon the settlement the Company should have

Canal Electric Company

-6-

made its first filing on April 15, 1989. The Company did not make any of the filings the settlement required for the period April 15, 1989 to April 15, 1993.

#### **Recommendation**

We recommend the Company:

*RNM (Filing) etc Chinkovtas  
ST Fogarty*

- (1) revise its procedures to ensure it makes the proper filings that it agreed to make; and
- (2) make all of the filings the settlement agreement (Docket ER86-704-001) required and that it agreed to make from 1989 to the current date.

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#### **5. Accounting for Goodwill and Promotional Advertising**

The Company improperly capitalized goodwill and advertising costs to Account 107, Construction Work in Progress--Electric; and subsequently reclassified the costs to Account 101, Electric Plant in Service. In addition, the Company accrued AFUDC and earned a return on the costs it had improperly capitalized.

#### **Background of Issue**

During an audit of the Seabrook project, the audit staff noted that the lead participant (Public Service Company of New Hampshire) charged \$75,295 of goodwill and promotional advertising expenses to Account 107, Construction Work in Process--Electric, on its books and in turn billed out the amounts to the joint owners. The Company paid its proportional share (3.52317%) of these expenditures or \$2,653.

In addition, during the course of construction of the Seabrook project, the lead participant incurred expenses for certain banquets, dinners, and parties of \$71,140 and charged them to Account 107 and billed the joint owners their proportionate share. The Company paid its share of \$2,506 and recorded the payment to Account 107 and began accruing AFUDC on these amounts.

The Company has a power contract with Cambridge Electric Light Company and Commonwealth Electric Company (associated companies) that requires both companies to take its total Seabrook entitlement. The contract permits the Company to bill out its total costs related to Seabrook.

Canal Electric Company

-7-

Beginning on January 16, 1989, the Company included a portion of its Seabrook construction investment<sup>3/</sup> in rate base and billed out a return on these costs to its customers. Prior to this time, the Company did not receive a current return but capitalized AFUDC on the entire construction investment.

The Company declared Seabrook to be in-service effective June 30, 1990, and transferred the amounts accrued in Account 107 to Account 101. The Company included the total amount of the charges plus accumulated AFUDC in the investment base calculation of its billings to Cambridge and Commonwealth for rate of return purposes.

### Discussion of Accounting Requirements

(1) Electric Plant Instruction No. 3, Components of Construction Costs, of the Uniform System of Accounts, lists properly capitalizable construction costs. EPI(3) does not list goodwill and promotional advertising, or banquets and parties as a cost that companies can properly capitalize.

Furthermore, the Commission stated in 1 FPC, page 132, in the Louisville Hydro Electric company, Project No. 289:

The cost of a banquet is not an appropriate or proper part of the cost of a public utility project. To approve such expenditure might open the door to goodwill advertising at the cost of the consuming public.

Also, the Commission stated the following in 1 FPC on page 269 of the Clarion River Power Company, Project No. 309:

Expenditures for social functions celebrating the completion of the project do not constitute a part of the actual legitimate cost of the construction project.

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<sup>3/</sup> The FERC approved power contract allowed the following CWIP balances to be included in rates:

- (1) 100% of the costs of pollution control facilities and fuel conversion facilities;
- (2) 50% of the costs of facilities recorded in FERC Account 107 not related to pollution control or fuel conversion facilities; and
- (3) 50% of the costs recorded in FERC Account 120.1; namely nuclear fuel in process of refinement, conversion, enrichment or fabrication

**DRAFT**

Canal Electric Company

-8-

Based on the above instructions and cites, it was not proper for the Company to capitalize the social, goodwill and promotional expenses as part of the plant accounts.

<2> Note A of Account 930.1, states in part:

Properly includible in this account is the cost of advertising activities on a local or national basis of a goodwill or institutional nature, which is primarily designed to improve the image of the utility in the industry, . . .

The Company should have included the \$2,653 for goodwill and promotional advertising in Account 930.1.

<3> The Special Instructions -- Accounts 426.1, 426.2, 426.3, 426.4 and 426.5, state in part:

These accounts shall include miscellaneous expense items which are nonoperating in nature but which are properly deductible before determining total income before interest charges.

Dinners and banquets are social and nonoperating in nature and the Company should have recorded the \$2,506 of expenses in the appropriate 426 series of accounts.

### Discussion of Rate Requirements

Section 3(c) of the Power Contract between the Company and Cambridge and Commonwealth states the following:

In the event that the in-service date of the Seabrook Unit is delayed beyond December 31, 1986, Canal Electric shall have the option, upon application to FERC, to commence billing System Purchasers a carrying charge on any "construction work in progress" (as defined from time to time in FERC regulations, as of the date hereof codified at 18 CFR part 35.26(b)(1), "CWIP") in accordance with the following formula:

$$\text{CWIP Charge} = [(\text{CWIP Base} - \text{Reserve for Deferred Taxes}) \times \text{CWIP Rate}]$$

The Company received FERC approval to bill out the CWIP charge in an order from the Commission dated January 13, 1989. However, by including these improper costs in Account 107, the Company earned a higher return than it was otherwise entitled to.

Section 4(b) of the Power Contract states the following:

Canal Electric Company

-9-

The Demand Component shall be equal to the sum of items (b)(ix) through (b) (xviii) as determined monthly in accordance with the following definitions and computations:

(i) Gross Plant Investment

Gross Plant Investment shall be the total cost of the Seabrook Unit to Canal Electric as reflected upon Canal Electric's books of account as of the end of the current month. Gross Plant Investment shall include amounts recorded and included in Canal Electric's FERC Accounts Numbers 101 through 106, . . .

(iv) Net Unit Investment

The Net Unit Investment shall be the Gross Plant Investment determined in (b)(i) above minus the sum of the reserves defined in accordance with (b)(ii) and b(iii) above. . . .

(viii) Investment Base

The Investment Base shall be the sum of Net Unit Investment . . .

(ix) Cost of Capital Expense

The Cost of Capital Expense applicable to the Seabrook Unit shall be determined by multiplying the Investment Base computed in (b)(viii) above by the Composite Cost of Capital Rate and dividing the result thereof by twelve. . . .

Therefore, when the Company capitalized the goodwill and promotional costs to Account 101, it included them in the investment base for billing purposes and earned a higher return on these amounts from its customers, Cambridge Electric Light Company and Commonwealth Electric Company that it was otherwise entitled to.

**Recommendation**

We recommend the Company:

- (1) revise its procedures to ensure that it accounts for goodwill and promotional advertising along with the cost of banquets in accordance with the requirements of the Uniform System of Accounts,
- (2) record the following correcting entry to expense the advertising and other non-capital items it improperly

Canal Electric Company

-10-

capitalized, and reverse all AFUDC it improperly accrued thereon:

<u>Account Number</u>	<u>Title</u>	<u>Debit</u>	<u>Credit</u>
930.1	General Advertising Expenses	\$ 2,653	
426.5	Other Deductions	2,506	
107	Construction Work in Progress-- Electric		\$ 5,159

- (3) recalculate its billings to its customers and refund, with interest calculated in accordance with Section 35.19(a) of the Commission's regulations, any amounts it overcollected due to the improper accounting of the above charges.

*TW Cardella ?*



Information Request DTE-3-10

Refer to the Companies' response to information request DTE 2-3. Are the Companies anticipating any over/under recovery as a result of consolidating their depreciation rates but not making related changes to its distribution rate? If so, how and when does the Companies propose to reconcile this over/under recovery?

Response

Because the proposed expense-neutral depreciation rates are largely based on the rates in the Companies' latest depreciation study, any significant deficiency or excess in the depreciation reserves should be minimized. Any actual excess or deficiency would be captured in future depreciation rates that the Companies would expect to propose in a future base rate proceeding.

Information Request DTE-3-11

Refer to Exh. NSTAR-CLV-1, at 35. Because individual retirements would not be recorded under the Companies' proposed depreciation arrangement, please discuss whether this would result in an acceleration of depreciation/amortization expense for ratemaking purposes.

Response

The implementation of amortization accounting for certain general plant accounts will not result in an acceleration of depreciation/amortization expense since the proposed amortization period reflects the average service life of the assets involved.